

California State Teachers' Retirement System

Bill Analysis

Senate Bill 1693

Senator Ortiz (As introduced 2/22/00)

Position:

Support (Staff recommendation)

Proponents:

None known

Opponents:

None known

SUMMARY

SB 1693 increases the supplemental payments made from the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund to restore purchasing power of initial allowances to 80 percent of the member's initial monthly allowance. Currently, such payments are made to maintain 75 percent of the member's initial allowance.

HISTORY

SB 1026 (Schiff—Chapter 939, Statutes of 1997) provided for purchasing power protection of up to 75 percent of the benefit recipient's original purchasing power from the 2.5 percent annual General Fund contribution to the SBMA.

AB 1102 (Knox—Chapter 1006, Statutes of 1998) vested the 2.5 percent General Fund contribution and the purchasing power payments payable from that contribution to retired members of the California State Teachers' Retirement System (CalSTRS).

AB 2201 (Honda, 2000) proposes, among other provisions, an increase in the level of payments made from the SBMA for purchasing power protection from 75 percent to 80 percent.

CURRENT PRACTICE

Under the Teachers' Retirement Law, all members and beneficiaries of the Defined Benefit Program receive monthly allowances that are increased by two percent of the original allowance. In addition, when the purchasing power of the current allowance, including the two percent adjustment, is less than 75 percent of the purchasing power of the original allowance, the member or beneficiary receives a quarterly benefit increase to the purchasing power of their total benefit to the 75 percent level. These supplemental payments are paid from (1) funds appropriated from the General Fund in an amount equal to 2.5 percent of the prior calendar year CalSTRS' member payroll, and (2) payments from the sale or use of land granted to the state by the federal government to support schools.

DISCUSSION

Currently, members and beneficiaries whose benefit effective date was 1981 or earlier receive the quarterly supplemental payment, and about 40,000 members and beneficiaries receive the quarterly payment. SB 1693 increases the supplemental payments from 75 percent to 80 percent to restore the purchasing power of the initial monthly allowances received by CalSTRS members. This would increase the number of supplemental benefit recipients by 16,340 and would include all members and beneficiaries whose benefit effective date was 1984 or earlier.

FISCAL IMPACT

Benefit Program Costs – According to preliminary estimates by the actuary, increasing the level of purchasing power protection from 75 percent to 80 percent would increase purchasing power payments as follows (in millions of dollars):

	2001-02	2002-03	2003-04
Total benefit payment increase	\$62.8	\$69.4	\$76.2

Given current actuarial assumptions, the funds that are available only to pay such payments are sufficient to pay the increased cost for at least 30 years.

Administrative Costs – Minor and absorbable costs.

RECOMMENDATION

Support. The bill provides an important increase in the supplemental payments made to retired members to stave off the eroding forces of inflation. These increased payments would assist long-retired members whose retirement allowances have been the most eroded over the course of time.